
**A Regional Analysis
of the Entire Federal Budget**

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**NORTHEAST
MIDWEST
INSTITUTE** 
THE CENTER FOR REGIONAL POLICY

**NORTHEAST-MIDWEST CONGRESSIONAL COALITION
NORTHEAST-MIDWEST SENATE COALITION
NORTHEAST-MIDWEST INSTITUTE**

In late 1976, members of Congress from the region founded the Northeast-Midwest Congressional Coalition in recognition of the common problems facing their states and the fact that federal policies often create major obstacles to regional economic growth. The bipartisan group now includes nearly 200 members of the House of Representatives. The Northeast-Midwest Senate Coalition, which was formed in 1978, has 36 members. Together the Coalitions seek to inform their members about the regional implications of national policies and proposals, and to influence those issues of greatest importance to Northeastern and Midwestern states.

The Coalitions propose legislative solutions to the economic problems of the New England, Mid-Atlantic, and Midwest states, and work to assure that federal policies are equitable in their treatment of different areas of the country. Task forces help develop policy initiatives and positions on subjects ranging from the federal budget and economic development to defense, natural resources, energy, and transportation.

The Northeast-Midwest Institute was formed in 1977 at the request of members of the House and Senate who perceived the need for information and analysis of public policies to identify and further the interests of the region. The Institute seeks to encourage policies that will ease the pressures on and support the continued revitalization of the region's economy. It continually searches for new ideas and legislative options that can help older Northern states overcome their handicaps—such as high energy costs and a deteriorating infrastructure—and prudently develop their many assets, including a highly skilled work force, top quality educational institutions, and abundant natural resources.

Although members of Congress remain key clients of the Institute, the organization has developed close working relationships with governors, mayors, and other state and local officials as well. The Institute's work is used widely and relied upon by corporate and labor leaders, academics, public interest groups, associations, and journalists throughout the nation.

The states in the region served by the three organizations are Connecticut, Delaware, Illinois, Indiana, Iowa, Maine, Maryland, Massachusetts, Michigan, Minnesota, New Hampshire, New Jersey, New York, Ohio, Pennsylvania, Rhode Island, Vermont, and Wisconsin.

A recent report by the Sunbelt Institute claims that the states it represents receive federal aid and procurement dollars well below the national norm, while the New England and Mid-Atlantic states' economies are buoyed up by the federal largess. The report states, "An examination of a variety of federal aid and procurement programs uncovers a pernicious regional bias against the Sunbelt states Regional disparities in the distribution of federal funds are the result of formula biases as well as discriminatory eligibility criteria and procurement practices. They provide testimony to the successful efforts of northeastern and midwestern politicians over the past decade to redirect federal expenditures to governments, businesses and individuals in the Frostbelt."

This issue brief reviews the data available, both to set the record straight and to analyze where the Northeast-Midwest region competes favorably and where it does not. The Sunbelt Institute report focuses on only two categories of spending--procurements and grants-in-aid--that account for just 37 percent of total federal expenditures. Although this issue brief pays particular attention to grants-in-aid and procurements, it reviews the flow of total federal expenditures, considers other categories of federal spending, and evaluates the impact of the higher cost of living in frost belt states.

Balance of Payments

The federal government received about \$745 billion in taxes¹ and spent \$990 billion in fiscal 1986, of which about \$803 billion was distributed to the 50 states. Because federal expenditures represent roughly one-quarter of the gross national product, they have a significant impact on state and regional economies. The best measure of the balance of payments is to compare how much each state contributes to the federal treasury with the benefits it receives through federal funds.

Table 1 compares the total amount of federal expenditures to the total federal taxes paid by state, which results in either a positive or negative balance of payments.² Of the 14 states with a negative balance of payments, 11 are in the Northeast-Midwest region: Connecticut, Delaware, Illinois, Indiana, Michigan, Minnesota, New Hampshire, New Jersey, New York, Ohio, and Wisconsin. Two are in the South: North Carolina and Texas; and one, Wyoming, is in the West. Overall, federal funds flow out of the Northeast and Midwest to the South and West.

¹This is the number used by the Tax Foundation in its fiscal year 1986 report. The Office of Management and Budget estimates \$769 billion in total federal receipts. Regardless of which figure is used, the conclusions drawn in this report remain the same.

²For the purposes of this comparison, the District of Columbia has been excluded because its large number of federal agencies causes a unique concentration of federal monies.

Table 1
Federal Expenditures, Tax Burden, and Balance of Payments by State, Fiscal 1986
(In millions of dollars)

Region and State	Federal ¹ Expenditures	Total State ² Tax Burden	Balance of Payments
New England			
Connecticut	13,491	14,296	-805
Maine	3,742	2,829	913
Massachusetts	24,937	21,742	3,195
New Hampshire	2,973	3,425	-564
Rhode Island	3,223	3,053	170
Vermont	1,435	1,340	95
Total	49,801	46,685	3,004
Mid-Atlantic			
Delaware	1,786	2,234	-448
Maryland	21,686	16,753	4,933
New Jersey	22,302	31,942	-9,640
New York	59,448	64,183	-4,735
Pennsylvania	37,453	36,335	1,118
Total	142,675	151,447	-8,772
Midwest			
Illinois	30,149	39,537	-9,388
Indiana	14,686	15,264	-578
Iowa	8,345	7,595	750
Michigan	23,402	28,517	-5,115
Minnesota	12,431	12,881	-450
Ohio	31,823	32,017	-194
Wisconsin	12,186	13,477	-1,291
Total	133,022	149,288	-16,266
South			
Alabama	13,097	9,307	3,790
Arkansas	7,179	5,063	2,116
District of Columbia ³	(14,436)	(2,680)	(11,756)
Florida	39,537	35,442	4,095
Georgia	18,506	16,306	2,200
Kentucky	12,516	8,414	4,102
Louisiana	12,372	11,318	1,054
Mississippi	8,475	4,914	3,561
North Carolina	15,746	15,934	-188
Oklahoma	9,750	9,084	666
South Carolina	9,944	7,520	2,424
Tennessee	15,917	11,988	3,929
Texas	47,343	52,493	-5,150
Virginia	28,039	18,242	9,797
West Virginia	5,409	4,170	1,239
Total	243,830	210,195	33,635

Table 1 (continued)
Federal Expenditures, Tax Burden, and Balance of Payments by State, Fiscal 1986
(In millions of dollars)

Region and State	Federal ¹ Expenditures	Total State ² Tax Burden	Balance of Payments
West			
Alaska	2,719	2,383	336
Arizona	11,403	8,935	2,468
California	100,860	92,030	8,830
Colorado	11,496	10,573	923
Hawaii	4,643	3,053	1,590
Idaho	3,005	2,308	697
Kansas	8,757	7,520	1,237
Missouri	20,894	14,817	6,077
Montana	2,821	2,010	811
Nebraska	5,211	4,467	744
Nevada	3,723	3,127	596
New Mexico	7,092	3,500	3,592
North Dakota	2,818	1,787	1,031
Oregon	7,409	7,297	112
South Dakota	2,454	1,564	890
Utah	5,501	3,648	1,853
Washington	16,874	13,700	3,174
Wyoming	1,523	1,564	-41
Total	219,203	184,283	34,920
Northeast	192,476 (24.4%)	198,132 (26.7%)	-5,768
Midwest	133,022 (16.9%)	149,288 (20.1%)	-16,266
Northeast and Midwest	325,498 (41.3%)	347,420 (46.8%)	-22,034
South	243,830 (30.9)	210,195 (28.3%)	33,635
West	219,203 (27.8%)	184,283 (24.8%)	34,920
South and West	463,033 (58.7%)	394,478 (53.2%)	68,555
U.S. Total	788,531	741,898	46,521

¹ Does not include undistributed funds or those distributed to the territories, which would bring the total to \$830,257.

² Total amount of taxes taken from Tax Foundation calculations.

³ Although D.C. figures are shown, they are not included in totals because they distort the comparison.

SOURCES: U.S. Department of Commerce, Bureau of the Census, Federal Expenditures by State for Fiscal Year 1986 (Washington, D.C., March 1987); Tax Foundation, "Memorandum on the Allocation of the Federal Tax Burden and Federal Grants-in-Aid by State, Fiscal Year 1986" (Washington, D.C., June 1987), Table 1.

Comparison of taxes paid and federal funds returned shows the following:

- the Northeast receives 24.4 percent of federal expenditures, but pays 26.7 percent of the taxes;
- the Midwest receives 16.9 percent of the federal dollars, but pays 20.1 percent of the taxes;
- the South receives 30.9 percent of federal expenditures, while paying 28.3 percent of the taxes; and
- the West gained 27.8 percent in expenditures and paid only 24.8 in taxes.

Northeastern states paid \$5.8 billion more in taxes than they received in federal funds in fiscal 1986; Midwest states paid \$16.3 billion more. The South gained \$33.6 billion and the West gained \$34.9 billion. Among the biggest losers, in the Northeast-Midwest region, New Jersey paid \$10 billion more than it received; Illinois lost \$9 billion; New York lost \$5 billion; Michigan lost \$5 billion; and Wisconsin lost \$1 billion. Virginia gained \$9 billion and Alabama, Florida, Kentucky, Tennessee, and Mississippi each gained approximately \$4 billion.

The Sunbelt report argues that the distribution of funds should be analyzed on the basis of each state's share of the population rather than comparing distribution patterns to taxes paid. This method ignores an important factor—the amount of money flowing out of the state to the federal treasury. It makes little sense to argue that federal funds have stimulated economic recovery in a state or region if, in fact, that state pays more money in taxes than it receives from the federal government. However, the Northeast-Midwest analysis does examine the data from both perspectives. Table 2 presents population figures and state percentages of national total population for 1986. The Northeast contains 22.9 percent of the U.S. population; the Midwest has 20.2 percent; the South has 32.3 percent; and the West contains 24.6 percent.

Categories of Federal Spending

About 85 percent of federal outlays are allocated to the states; they fall into four categories: payments to individuals, 45 percent; procurement, 23 percent; salaries and wages, 15 percent; and grants to state and local governments, 14 percent.

Direct Payments to Individuals

Payments to individuals, the largest category of federal expenditures, includes Social Security, student loans, housing assistance, Medicare, supplemental security income, veterans compensation, federal retirement, and food stamps. As shown in Table 3, distribution of these funds falls fairly close to regional population totals: the Northeast received 25 percent of the payments; the Midwest received 19.6 percent; the South received 32.1 percent; and the West received 23.3 percent. The Northeast-Midwest region received 44.6 percent of these payments compared to 55.4 percent in the South and West.

Table 2
U.S. Population by State, 1986

Region and State	Resident Population (in thousands)	Percent of U.S. Total
New England		
Connecticut	3,189	1.3
Maine	1,174	0.5
Massachusetts	5,832	2.4
New Hampshire	1,027	0.4
Rhode Island	975	0.4
Vermont	541	0.2
Total	12,738	5.3
Mid-Atlantic		
Delaware	633	0.3
Maryland	4,463	1.9
New Jersey	7,620	3.2
New York	17,772	7.4
Pennsylvania	11,889	4.9
Total	42,377	17.6
Midwest		
Illinois	11,553	4.8
Indiana	5,504	2.3
Iowa	2,851	1.2
Michigan	9,145	3.8
Minnesota	4,214	1.7
Ohio	10,752	4.5
Wisconsin	4,785	2.0
Total	48,804	20.2
South		
Alabama	4,053	1.7
Arkansas	2,372	1.0
District of Columbia	626	0.3
Florida	11,675	4.8
Georgia	6,104	2.5
Kentucky	3,728	1.5
Louisiana	4,501	1.9
Mississippi	2,625	1.1
North Carolina	6,331	2.6
Oklahoma	3,305	1.4
South Carolina	3,378	1.4
Tennessee	4,803	2.0
Texas	16,682	6.9
Virginia	5,787	2.4
West Virginia	1,919	0.8
Total	77,889	32.3

Table 2 (continued)
U.S. Population by State, 1986

Region and State	Resident Population (In thousands)	Percent of U.S. Total
West		
Alaska	534	0.2
Arizona	3,317	1.4
California	26,981	11.2
Colorado	3,267	1.4
Hawaii	1,062	0.4
Idaho	1,003	0.4
Kansas	2,461	1.0
Missouri	5,066	2.1
Montana	819	0.3
Nebraska	1,598	0.7
Nevada	963	0.4
New Mexico	1,479	0.6
North Dakota	679	0.3
Oregon	2,698	1.1
South Dakota	708	0.3
Utah	1,665	0.7
Washington	4,463	1.9
Wyoming	507	0.2
Total	59,270	24.6
Northeast	55,115	22.9
Midwest	48,804	20.2
Northeast and Midwest	103,919	43.1
South	77,889	32.3
West	59,270	24.6
South and West	137,159	56.9
U.S. Total	241,078	100.0

SOURCE: Bureau of Census, U.S. Department of Commerce News, "Florida Now 5th Largest State, Census Bureau Reports," December 31, 1986, p. 3.

Table 3
Categories of Federal Spending

Region and State	Direct Payments for		Wages and Salaries		Grants- ¹ In-Aid	Tax Burden Per Dollar of Grants (in dollars)
	Individuals	Procurements	Total	Defense		
New England						
Connecticut	4,643	5,848	1,000	446	1,501	1.38
Maine	1,924	645	455	233	672	0.61
Massachusetts	9,521	9,461	2,079	675	3,082	1.02
New Hampshire	1,447	518	557	375	403	1.23
Rhode Island	1,698	448	440	284	570	0.78
Vermont	754	151	155	34	334	0.58
Total	19,987	17,071	4,686	2,047	6,562	1.03
Mid-Atlantic						
Delaware	927	260	253	149	314	1.03
Maryland	7,326	6,776	4,987	2,096	1,981	1.22
New Jersey	11,768	4,124	2,737	1,230	3,354	1.38
New York	28,554	11,679	5,217	1,072	12,380	0.75
Pennsylvania	21,217	5,581	4,167	1,873	5,715	0.92
Total	69,792	28,420	17,381	6,420	23,742	0.92
Midwest						
Illinois	16,751	3,014	4,000	1,495	5,009	1.14
Indiana	7,732	2,997	1,446	664	2,000	1.11
Iowa	4,406	822	603	96	1,159	0.95
Michigan	13,491	3,101	1,959	622	4,350	0.95
Minnesota	5,470	2,674	1,019	180	2,106	0.89
Ohio	15,880	7,452	3,175	1,400	4,763	0.97
Wisconsin	6,729	1,604	941	242	2,308	0.85
Total	70,459	21,664	13,143	4,699	21,666	1.00
South						
Alabama	6,437	2,266	2,423	1,404	1,710	0.79
Arkansas	3,960	1,021	766	359	1,113	0.66
District of Columbia ²	(1,499)	(2,759)	(7,453)	(921)	(1,382)	0.28
Florida	23,669	7,223	4,988	2,917	3,239	1.58
Georgia	7,799	3,957	3,728	2,337	2,727	0.87
Kentucky	5,576	3,330	1,709	1,068	1,770	0.69
Louisiana	5,856	2,562	1,479	762	2,034	0.81
Mississippi	3,928	1,835	1,145	746	1,320	0.54
North Carolina	8,421	1,530	3,163	2,231	2,278	1.01
Oklahoma	4,902	973	1,990	1,321	1,394	0.94
South Carolina	4,552	1,784	2,170	1,770	1,318	0.83
Tennessee	6,968	4,550	2,036	457	2,006	0.87
Texas	20,473	12,692	7,524	4,276	5,217	1.46
Virginia	9,371	7,260	8,705	6,920	2,012	1.31
West Virginia	3,461	321	486	83	1,061	0.57
Total	115,373	51,274	42,312	26,651	29,199	1.01

Table 3 (continued)
Categories of Federal Spending

Region and State	Direct	Procurements	Wages and Salaries		Grants- ¹	Tax Burden
	Payments		Total	Defense	In-Aid	Per Dollar of Grants
	for Individuals					
(In millions of dollars)						(in dollars)
West						
Alaska	388	759	887	561	641	0.54
Arizona	5,166	3,253	1,563	804	1,189	1.09
California	36,960	35,228	15,052	9,656	11,177	1.19
Colorado	4,068	3,555	2,296	1,159	1,168	1.31
Hawaii	1,517	619	1,961	1,768	473	0.93
Idaho	1,331	642	413	160	412	0.81
Kansas	3,769	2,166	1,265	730	882	1.23
Missouri	8,134	6,633	2,342	976	1,979	1.08
Montana	1,231	158	413	123	554	0.53
Nebraska	2,421	507	773	430	660	0.98
Nevada	1,378	1,426	476	243	404	1.12
New Mexico	2,029	2,984	1,103	638	736	0.65
North Dakota	967	314	440	264	412	0.63
Oregon	4,356	593	915	165	1,153	0.92
South Dakota	1,066	213	385	164	453	0.50
Utah	1,757	1,624	1,176	785	769	0.69
Washington	6,736	4,761	2,948	1,863	1,864	1.06
Wyoming	560	182	266	110	308	0.74
Total	83,834	65,617	34,674	20,599	25,234	1.06
Northeast						
	89,779 (25.0%)	45,491 (24.7%)	22,067 (19.7%)	8,467 (14.0%)	30,304 (28.5%)	0.95
Midwest						
	70,459 (19.6%)	21,664 (11.8%)	13,143 (11.7%)	4,699 (7.7%)	21,666 (20.4%)	1.00
Northeast and Midwest						
	160,238 (44.6%)	67,155 (36.5%)	35,210 (31.4%)	13,166 (21.8%)	52,000 (48.9%)	0.97
South						
	115,373 (32.1%)	51,274 (27.9%)	42,312 (37.7%)	26,651 (44.1%)	29,199 (27.4%)	1.01
West						
	83,834 (23.3%)	65,617 (35.7%)	34,674 (30.9%)	20,599 (34.1%)	25,234 (23.7%)	1.06
South and West						
	199,207 (55.4%)	116,891 (63.5%)	76,986 (68.6%)	47,250 (78.2%)	54,433 (51.1%)	1.03
U.S. Total						
	359,445	184,046	112,196	60,416	106,433	1.00

¹ Excludes shared revenues and payments in lieu of taxes; includes general revenue sharing and trust fund aids.

² District of Columbia figures not included in South or total, because they distort the comparison.

SOURCES: U.S. Department of Commerce, Bureau of the Census, Federal Expenditures by State for Fiscal Year 1986 (Washington, D.C., March 1987, pp. 17-18; and Tax Foundation, "Memorandum on the Allocation of the Federal Tax Burden and Federal Grants-in-Aid by State, Fiscal Year 1986" (Washington, D.C., June 1987), Table 1.

Procurement

The Northeast-Midwest region receives only 36.5 percent of the federal government's spending for goods and services. In fact, this low level of procurement accounts for much of the regional differences in total federal expenditures. As shown in Table 4, the Northeast-Midwest does compete more effectively for defense procurement dollars than for other agencies' purchases --39.6 percent for defense procurement versus 27.7 percent for civilian. However, much of the difference reflects Connecticut and Massachusetts defense contracts--boosting New England's share of defense contracts to 11.7 percent compared to 2.7 percent of procurement from all other agencies.

Salaries and Wages

The Northeast-Midwest region receives the lowest percentage in the wages and salaries category. Of the total for all government employees including Defense, the Northeast accounts for 20 percent; the Midwest receives 12 percent; the South receives 38 percent; and the West 31 percent.

Defense personnel, both military and civilian, earn roughly half the government's wages and salaries. Most of the defense installations are located in the South and West. The South benefits from 44 percent of defense wages and salaries compared to 34 percent in the West, 14 percent in the Northeast, and 8 percent in the Midwest.

Grants-in-Aid

The grants-in-aid category includes all federal grants to state and local governments, including Farmers Home Administration programs, food stamps, education programs, housing payments, Indian programs, highway trust funds, construction of wastewater treatment works, and Medicaid. The Northeast receives 28.5 percent of these grants and the Midwest 20.4 percent, compared to 27.4 percent for the South, and 23.7 percent for the West. When compared to its tax burden, the Northeast-Midwest region receives only 97 cents of aid for every dollar of taxes it pays. The Northeast gets back 95 cents on the dollar; the Midwest breaks even; the South receives \$1.01 and the West gains \$1.06. By either standard, it is apparent that the Northeast-Midwest region is hardly making a raid on the federal treasury.

Some of these programs require a match of state funds. The basic premise of federalism which drives many federal assistance programs is that aid is a shared responsibility across different levels of government. Programs such as AFDC and unemployment extended benefits require a 50/50 federal-state match. The reason that significant levels of funds go to Midwest and Northeast states under these programs is that even in times of severe fiscal stress, these states are willing to allocate significant amounts of state funds and therefore receive more federal funds as a match. For example, in 1986 the maximum AFDC benefit for a family of three varied dramatically from state to state. States that paid benefits over \$500 included Alaska, California, Connecticut, Vermont, Minnesota and Wisconsin. Eight states paid less than \$200--all of them southern--Alabama, Arkansas, Kentucky, Louisiana, Mississippi, South Carolina, Tennessee, and Texas.

Table 4
Total Department of Defense Expenditures and Value of
Defense Procurement Contracts vs. Totals for All Other Agencies

Region and State	Total Department of Defense <u>Spending</u> (in millions of dollars)	Total Spending In Other <u>Agencies</u> (in millions of dollars)	Value of Defense <u>Procurement</u> (in thousands of dollars)	Value of All Other <u>Procurement</u> (in thousands of dollars)
New England				
Connecticut	5,995	7,496	5,431,653	416,431
Maine	918	2,824	584,871	60,129
Massachusetts	9,637	15,300	8,735,643	725,023
New Hampshire	945	2,028	471,171	46,864
Rhode Island	745	2,478	393,347	55,038
Vermont	188	1,247	123,611	27,669
Total	18,428	31,373	15,740,296	1,331,154
Mid-Atlantic				
Delaware	428	1,358	224,478	35,253
Maryland	7,094	14,592	4,533,742	2,242,655
New Jersey	4,718	17,583	3,226,046	897,957
New York	11,279	48,169	9,900,159	1,778,828
Pennsylvania	6,512	30,941	4,240,917	1,339,949
Total	30,031	112,643	22,125,342	6,294,642
Midwest				
Illinois	3,509	26,640	1,733,437	1,280,110
Indiana	3,313	11,373	2,480,059	516,711
Iowa	751	7,595	580,266	241,643
Michigan	3,170	20,232	2,352,443	648,741
Minnesota	2,595	9,836	2,299,511	374,292
Ohio	6,929	24,894	5,200,990	2,250,585
Wisconsin	1,331	10,855	975,090	628,611
Total	21,598	111,425	15,621,796	5,940,693
South				
Alabama	3,408	9,689	1,589,502	676,821
Arkansas	1,474	5,705	886,697	134,719
District of Columbia ¹	(1,732)	(12,705)	(764,959)	(1,994,263)
Florida	10,366	29,171	5,661,349	1,561,813
Georgia	6,438	12,068	3,507,881	448,730
Kentucky	1,786	10,730	536,299	2,763,690
Louisiana	2,547	9,825	1,497,686	1,063,861
Mississippi	2,599	5,876	1,637,407	197,753
North Carolina	3,836	11,910	1,046,689	482,902
Oklahoma	2,400	7,351	775,231	198,152
South Carolina	2,736	7,208	520,975	1,262,858
Tennessee	1,937	13,980	1,139,663	3,410,656
Texas	16,904	30,438	10,833,955	1,858,342
Virginia	13,580	14,459	5,402,539	1,857,903
West Virginia	264	5,146	103,441	217,975
Total	70,275	173,556	35,139,314	16,136,175

Table 4 (continued)
Total Department of Defense Expenditures and Value of
Defense Procurement Contracts vs. Totals for All Other Agencies

Region and State	Total Department of Defense <u>Spending</u> (In millions of dollars)	Total Spending in Other <u>Agencies</u> (In millions of dollars)	Value of Defense <u>Procurement</u> (In thousands of dollars)	Value of All Other <u>Procurement</u> (In thousands of dollars)
West				
Alaska	1,187	1,532	566,929	192,423
Arizona	3,888	7,514	2,625,152	627,543
California	40,304	60,556	28,004,838	7,223,449
Colorado	3,528	7,968	1,892,977	1,662,387
Hawaii	2,486	2,158	562,953	56,073
Idaho	306	2,698	62,670	579,769
Kansas	2,844	5,913	1,949,311	217,059
Missouri	6,801	14,092	5,546,797	1,086,221
Montana	238	2,583	62,040	95,858
Nebraska	767	4,444	225,595	281,715
Nevada	552	3,172	141,419	1,285,020
New Mexico	1,400	5,692	563,517	2,420,629
North Dakota	516	2,302	229,223	84,837
Oregon	689	6,720	339,968	252,771
South Dakota	328	2,126	127,605	85,119
Utah	1,685	3,816	805,747	818,177
Washington	5,006	11,868	2,524,191	2,237,048
Wyoming	236	1,286	92,066	90,305
Total	72,761	146,440	46,322,598	19,296,403
Northeast	48,459	144,016	37,865,638	7,625,796
	(22.7%)	(25.0%)	(28.1%)	(15.6%)
Midwest	21,598	111,425	15,621,796	5,940,693
	(10.1%)	(19.4%)	(11.6%)	(12.1%)
Northeast and Midwest	70,057	255,441	53,487,434	13,566,489
	(32.9%)	(44.4%)	(39.6%)	(27.7%)
South	70,275	173,556	35,139,314	16,136,175
	(33.0%)	(30.2%)	(26.0%)	(32.9%)
West	72,761	146,440	46,322,598	19,296,403
	(34.1%)	(25.4%)	(34.3%)	(39.4%)
South and West	143,036	319,996	81,461,912	35,432,578
	(67.1%)	(55.6%)	(60.4%)	(72.3%)
U.S. Total	213,093	575,437	134,949,346	48,999,067

¹ Although D.C. figures are shown, they are not included in totals because they distort the comparison.

SOURCE: U.S. Department of Commerce, Bureau of the Census, Federal Expenditures by State for Fiscal Year 1986 (Washington, D.C., March 1987).

Congress established different grant programs to help state and local governments with a variety of problems. The Sunbelt report concentrates on the Community Development Block Grant and Urban Development Action Grants, which focus on larger urban areas located largely in the Northeast and Midwest. The report does not account for programs such as the Economic Development Administration, Tennessee Valley Authority, or community development programs of the Farmers Home Administration, all of which focus on smaller cities and rural areas where the South does better. Furthermore, grant-in-aid programs do reflect changing need and distress. According to Department of Labor data, for example, the Job Training Partnership Act's training programs for the disadvantaged, youth, and dislocated workers sent more money to the South in fiscal 1986 than any other region.

The Sunbelt report is correct in stating that the data used in formula allocations are often outdated and inadequate to reflect changing economic conditions. The Reagan Administration has eliminated many of the federal government's information collection functions, both in terms of frequency and quantity. However, this is an argument for increasing the funding for data collection, not for changing the formulas used to distribute the money.

Defense Versus Other Agency Spending

Overall, the Northeast-Midwest region receives more of the non-defense than the defense dollar. A total of 32.9 percent of defense spending flows to the Northeast-Midwest compared to 67.1 percent in the South and West. In contrast, the older northern states receive 44.4 percent of the other agencies' funds. There are some important exceptions, however.

In procurements, for instance, the Northeastern and Midwestern states actually compete more successfully for defense contracts than for civilian contracts--39.6 versus 27.7 percent. The defense contracts awarded Massachusetts and Connecticut, however, account for much of the difference.

Total defense spending in the Northeast-Midwest actually has fallen from fiscal 1977, when these states realized 33.1 percent of total defense spending. In contrast, defense spending in the South has increased from 31.7 percent in fiscal 1977 to 33.0 percent in fiscal 1986.

Per Capita Income and Cost of Living Differences

The Sunbelt report points out that the Sunbelt states have per capita incomes below the national average, while most of the Frostbelt states have incomes above average. Therefore, the report argues, the Northeast-Midwest Institute's use of "balance of payments" as a basis for federal spending is misleading because it simply reflects the reality of higher incomes. A better indicator, the Sunbelt Institute argues, is whether or not the region receives more or less than the national average on a per-capita basis. There are two points to make about the Sunbelt Institute's approach:

- On a per-capita basis, the Northeast-Midwest region receives fewer federal dollars per capita than its share of the population--41.3 percent of federal expenditures versus 43.1 percent of the population. The Northeast gains more than the national average, 24.4 percent compared to 22.9 percent of the population, while the Midwest does the

poorest of all regions--16.9 percent of federal expenditures for 20.2 percent of population. The South receives 30.9 percent of the funds for 32.3 percent of the population, while the West, with 24.6 percent of the population, gains 27.8 percent of funds.

- Although the Sunbelt report argues against using the tax burden as an acceptable indicator because per-capita income is higher in the Northeast and Midwest, it is silent on cost-of-living differences. While the Sunbelt report notes that a higher income results in higher tax burdens, it fails to recognize that higher per-capita income does not mean a higher standard of living when the purchase of the same market basket of goods varies greatly by region. It does cost more, on average, to live in the Northeast-Midwest cities.

In comparing the 12 cities listed in Table 5, the total cost of living is an average of 22.1 points higher in the Northeast and the Midwest than in the Sunbelt region. The Consumer Price Index uses a point scale with 100 as the average.

Table 5
Comparison of Consumer Price Indexes for Selected Cities
(Fourth Quarter, 1986)

City and State	Total	Grocery	Housing	Utilities	Transportation
Northeast-Midwest					
Brookline, MA	163.8	112.0	332.1	112.4	109.7
Hartford, CT	118.3	105.1	130.6	141.8	104.4
Iowa City, IA	105.4	89.0	122.2	96.0	109.7
Kalamazoo, MI	108.6	98.1	119.8	101.6	112.0
New York, NY	140.2	108.1	189.1	180.1	118.8
Philadelphia, PA	120.5	107.0	127.2	156.2	110.0
Sunbelt					
Atlanta, GA	111.0	100.8	131.9	126.7	97.7
Birmingham, AL	98.6	96.1	91.5	102.7	108.6
Dallas, TX	108.6	105.6	116.6	103.1	110.1
Memphis, TN	97.4	99.5	97.3	86.9	102.5
Miami, FL	110.9	120.0	114.4	110.4	111.7
New Orleans, LA	97.8	94.9	94.7	110.7	96.4

SOURCE: The American Chamber of Commerce Research Association, "ACCRA City Composite Index, Fourth Quarter 1986" (Washington, D.C., 1987), Section 1, pp. 1-6.

Conclusion

The Sunbelt Institute suggests that the Northeast-Midwest Congressional Coalition coordinated "an assault on the U.S. Treasury" that caused "a pernicious regional bias against the Sunbelt states." The facts simply don't support this strong rhetoric. Far from raiding the federal treasury, the states in the Northeast-Midwest region continue to receive less than the South and West.

By comparing the total amount paid in taxes to the total amount gained in federal expenditures, the Northeast and Midwest lost \$22 billion in fiscal year 1986, while the South and West gained \$68.6 billion. Even by comparing federal expenditures on a per-capita basis, the method preferred by the Sunbelt Institute, the Northeast-Midwest region received less than its share, while both the South and West benefited by the flow of federal funds.

The Sunbelt Institute demands major changes in grant-in-aid formulas, program eligibility criteria, and federal procurement practices in order to divert more federal funds to southern and western states. The report, however, carefully notes those several programs should not be changed because "the formerly pro-northern variables may now be pro-southern."

With tight federal budgets, this nation can ill afford a "Second War Between the States," or any bitter battle to grab more federal funds. The Northeast-Midwest Institute is committed to supplying the facts so that elected representatives from all regions can work to ensure that federal dollars are used wisely and distributed fairly.